



Request for City Council Committee Action from the Departments of Finance and Property Services and Community Planning and Economic Development

Date: April 23, 2012

To: Council Member Betsy Hodges, Chair, Ways & Means/Budget Committee

Referral to: Council Member Lisa Goodman, Chair, Community Development Committee

Subject: Growth Fund

Recommendation: Authorize the establishment of, and methodology for, a Growth Fund and approve the related Growth Fund Policy for incorporation into the City's Financial Policies.

Previous Directives: April 25, 2011 staff direction from Ways & Means Committee directing CPED to *"work with Finance and the City Assessor to develop options for structuring a "Growth Fund" for consideration as part of the 2012 budget"*; December 14, 2011 resolution adopting the 2012 budget added \$2.5 million per year to CPED's General Fund allocation in the Five Year Financial Direction beginning in 2013 and directed CPED *"to work with the Finance Department to prepare and present a methodology for the proposed Growth Fund. These presentations must be made prior to April 1, 2012, to both the Ways & Means/Budget Committee and the Community Development Committee."*

Department Information

Prepared by: Jeff Schneider & Jeff Streder

Approved by: Chuck Lutz, Deputy Director, CPED

Kevin Carpenter, City Finance Officer

Presenters in Committee: Jeremy Hanson Willis, Interim Director, CPED

Jeff Streder, Director, Development Finance

Financial Impact

- Action is within the department's approved Business Plan
- There is no immediate financial impact. If approved, the policy and methodology will form the basis of consideration for a Growth Fund as part of the 2013 budget process. The proposed financial impact is consistent with the adopted Five Year Financial Direction.

Community Impact

- City Goals: Action is consistent with Jobs and Economic Vitality Goal, e.g. "proactive business development in key growth areas"

- Comprehensive Plan: Action is consistent with “Minneapolis Plan for Sustainable Growth”, e.g. *Minneapolis will grow as the regional center for employment, commerce, industry and tourism, providing opportunities for residents, entrepreneurs and visitors.*

Supporting Information

The impetus for creating a “growth fund” stems from the need to insure sufficient resources to support ongoing city efforts to “grow the city”, including the continued growth of the tax base. The City has long made both short term and ongoing efforts to “grow the economy” both within the city and at the regional level. “Growing the city” doesn’t just happen by itself and it is not cost free. As the lead city department charged with this mission, CPED has been particularly concerned with its ability to sustain that effort in light of diminishing resources. The Growth Fund is one of several tools contemplated in the department’s Business Plan and Five Year Financial Plan that would enable the department to achieve a structurally balanced budget by 2015.

The idea of dedicating a portion of revenues derived by tax base growth to support staff work and projects that ‘grow the tax base’ is not new. This is one of the principles behind tax increment laws that have been on the books since the 1970’s. The distinction here is that the City would use a portion of the revenues from new tax base to support selected operating costs associated with promoting city growth.

CPED began discussing long term financial challenges and workout strategies with the Mayor and Finance staff in mid-2010.¹ The Mayor encouraged CPED to work with Finance on a multi-year plan to bring the department’s budget into structural balance within five years.

In late 2010 the Mayor convened a small group of outside finance experts² to look at the economic development activities CPED was doing [“is the city doing the right things?”] and the related financial challenges of supporting those key activities. The group met four times over the winter of 2010-11, reviewing a substantial amount of background material assembled by the Finance Department about peer cities. In January of 2011, the panel provided several recommendations regarding the future of economic development in Minneapolis. Among them was the following:

Fund CPED Development Efforts Based on Performance Results. *Based on a metric to be developed jointly by CPED, Finance, and the City Assessor, the City should reserve a fixed portion of the revenue from new property tax value created by CPED’s work for supporting future CPED programs and operations. Finance should collaborate with CPED, Public Works and the City Assessor for factoring major infrastructure and development project pipelines and anticipated project completion into tax base analysis to more accurately project the City’s future tax base.*

In a letter to City Council dated March 25, 2011 intended to address the results of the panel’s work, the Mayor expressed his support for this recommendation and indicated it was one the City should move forward with on implementing a process that incorporated this philosophy into its overall business model and operations.

¹ See page 6 for a summary of key steps in the development of the growth fund.

² Members of the Mayor’s Council on Economic Development Finance included Pat Born, City Finance Officer, Frank Fairman of Piper Jaffray, Lee Sheehy from the McKnight Foundation, John Taft of RBC Dain Rauscher and Pam Wheelock from the Bush Foundation.

The City should allocate a portion of this new tax base as a "Growth Fund" to support future infrastructure and development investments.

CPED reflected this recommendation in its Business Plan which was presented to the Community Development and Ways & Means Committees in April 2011. As part of its approval of that Plan, the Ways & Means Committee directed CPED to work with Finance and the City Assessor to develop options for structuring a "Growth Fund" for consideration as part of the 2012 budget.

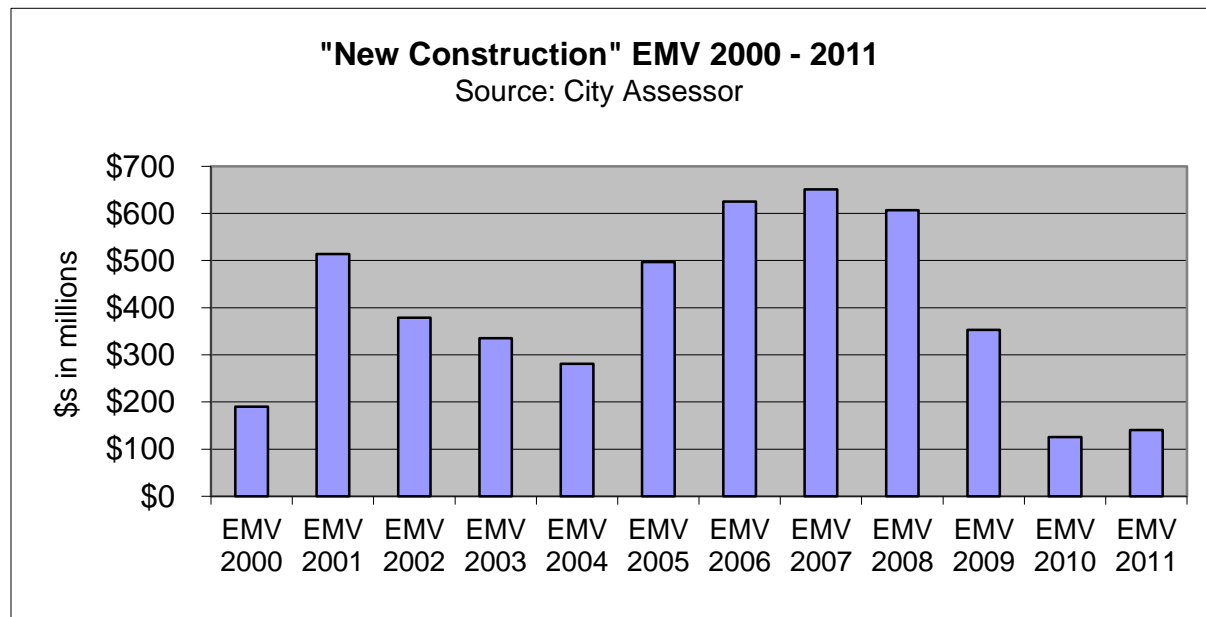
Growth Fund Concept and Annual Process

CPED, Finance, and the Assessor met over the next several months to develop this concept, define a methodology and propose a process. The basic concept for the following annual cycle of steps was presented to the Mayor in July of 2011 and to Ways & Means in August:

- **The Assessor's Office** to provide annual estimates of overall estimated market value (EMV) attributable to "new construction", i.e. tax base added the prior year due to physical growth, not just increase in value of existing properties. This is an annual calculation required by statute and reported to the Department of Revenue in the Spring Mini-Abstract on April 1st of each year.

Note: this option was determined to be preferable to basing the calculation on only "CPED assisted" projects because it is an existing annual calculation by the Assessor [as opposed to a new ad-hoc computation by CPED] that includes only already-realized EMV [as opposed to prospective EMV].

- Due to the volatility of new construction EMV [see chart below], it was determined that it would be better to base a Growth Fund on a five year rolling average of new construction EMV, rather than annual new EMV.



- **Finance** would then use the most recent five year average of "new construction EMV" to estimate the annual amount of tax levy that was attributable to growth. Finance has estimated the actual tax revenues attributable to new growth during last six – five year averages as follows:

City Property Taxes Based on Five-Year Averages of EMV of New Construction							
City Property Taxes							
5-Year Period Ending	2007	2008	2009	2010	2011	2012	
Commercial	\$623,440	\$431,374	\$486,551	\$524,550	\$514,853	\$477,496	
Industrial	65,344	42,510	42,923	54,441	58,204	52,218	
Residential	1,734,464	2,157,680	2,452,878	2,506,832	2,531,480	1,988,511	
Apartment	251,932	259,484	265,464	323,816	371,474	402,892	
	\$2,675,180	\$2,891,048	\$3,247,816	\$3,409,639	\$3,476,011	\$2,921,117	

Next steps

As noted in “previous directives”, the adopted Five Year Financial Direction for 2012 - 2017 adds \$2.5 million from incremental growth in tax base due to new construction to CPED beginning in 2013. As part of the 2013 budget process, it is anticipated that CPED will be submitting its 2013 budget request consistent with this allocation in June. The department’s request will also continue to reduce operating expenditures as part of the Five Year Plan to achieve a structurally balanced budget by 2015. The Mayor and Council will act on this request as part of the normal annual budget process.

In order to provide ongoing policy direction on this issue, CPED and Finance were requested to prepare a “growth fund policy” for Council consideration that establishes a mechanism for allocating revenues from growth-related tax base as a Growth Fund to help pay for investments in future development activities (capital, program, and related administrative costs), and to provide procedures on how to administer such a fund. The proposed policy is attached for your review.

Minneapolis Growth Fund Policy

April 23, 2012

I. Purpose of Policy

This Growth Fund Administration Policy has been developed for the following purposes:

- To address the City's need to insure sufficient resources for supporting ongoing efforts to "grow the city", including the continued growth of the tax base. The Department of Community Planning and Economic Development ("CPED") is the operating department charged with greatest level of responsibility for carrying out this mission.
- To establish a mechanism for annually allocating all or a portion of the property tax revenues that can be derived from newly realized tax base as a Growth Fund to use as a source to help pay for investments in future development activities (capital, program and related administrative costs).
- To provide staff with a set of guidelines and procedures to follow in the continued administration of a Growth Fund.

This policy becomes effective as of the date of its adoption by the Minneapolis City Council and will be reflected in the overall financial policies adopted through the 2013 budget process.

II. Annual Calculation of Maximum Growth Fund Revenues

- The City Assessor will provide the annual EMV attributable to new construction in the most recent calendar year to the Finance Department by May 1st annually.
- The Finance Department will compute a five year rolling average of new construction EMV data, and then will produce an estimate of the tax levy attributable to that five year average level of growth, based on the most current class rates and the individual tax capacity rates of the local taxing jurisdictions.
- Finance will provide the Mayor the resulting estimate of maximum potential Growth Fund revenue for use in developing the following year's budget by June 1st annually.

III. Annual Distribution of Growth Fund of Revenues

- The Mayor will propose a specific dollar amount of general fund property tax revenues to be dedicated for the following year's Growth Fund as part of the recommended budget.
- These dollars would then be incorporated into CPED's budget request as a source of funding to help pay for investments in future development activities (capital, program and related administrative costs) needed to catalyze projects that are best positioned to grow the City and its tax base.
- As with all revenues for all departmental activities, the Council reviews and approves, or adjusts the amount of general fund revenues to dedicate for the following year's Growth Fund as part of the regular annual budget adoption process.

Growth Fund Timeline

July 2010

CPED begins discussing growth fund concept as one of several revenue options with Mayor as part of a five year financial workout plan

November 2010

Mayor convenes outside panel to review CPED's economic development finance role and funding challenges. Panel meets four times from November to January

January 2011

Panel provides several recommendations to Mayor, including development of a 'growth fund' based on tax base growth

March 2011

Mayor endorses panel recommendations in letter to City Council

April 2011

CPED presents its five year business plan to Community Development and Ways & Means Committees, including growth fund concept as one part of its five year plan to achieve a structurally balanced budget

Ways & Means directs CPED to "work with Finance and the City Assessor to develop options for structuring a "Growth Fund" for consideration as part of the 2012 budget"

April – July 2011

CPED, Finance, Assessor meet to further develop growth fund concept, using existing Assessor annual calculation of value added due to "new construction" as the base

July 2011

CPED and Finance present refined growth fund concept to Mayor in budget meetings

August 2011

CPED presents refined growth fund concept to Community Development and Ways & Means committees as part of its report back on spending reduction options

December 2011

City Council adopts the 2012 Budget, and accompanying Five Year Financial Direction, including an additional \$2.5m for CPED, beginning in 2013. CPED staff is directed to work with Finance to prepare a methodology for the proposed Growth Fund for consideration by the Council.